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ANNUAL REPORT

Bank of America
NATIONAL TRUST AND SAVINGS ASSOCIATION

1942

Comp File

Bank of America

NATIONAL TRUST AND SAVINGS ASSOCIATION

San Francisco, California

January 12, 1943

Annual Report of President L. M. Giannini to the Stockholders

I IN CONCLUDING last year's report I assured you that every resource of Bank of America would be devoted to winning the war. The promise has been kept. This report of stewardship, covering a full year of banking service under war conditions, might well be entitled "Victory Banking in California."

During 1942:

- Total resources rose to \$2,771,689,632, representing an increase of \$676,054,013;
- Deposits advanced to \$2,586,140,699, increasing \$677,756,778 within the year;
- Total loans and investments increased from \$1,607,683,462 to \$2,106,219,404;
- Investments increased \$572,635,534, amounting at year-end to \$1,265,749,444, while loans decreased \$74,099,592 to a total of \$840,469,960;
- Included in the increase in investments, holdings of securities of the United States Government and Federal Agencies rose \$549,353,856, from \$493,707,663 to \$1,043,061,519.

Loans made for war production purposes in the 12 months ended September 30th, and commitments outstanding on that date, totaled \$409,631,000, according to a special survey covering the period.

Sales of war savings bonds to the public aggregated \$160,218,000 (sales price) during the year, raising cumulative sales to \$192,735,000 since inception of the campaign in May, 1941.

With California industrial and business activity rising to record heights and a large increase in population, the Bank was called upon to handle a vastly larger volume of business in 1942.

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EARNINGS AND THEIR DISPOSITION

GROSS income of \$76,736,880 was derived from operations in 1942. Operating expenses amounted to \$50,159,022. Resultant earnings were \$26,577,858.

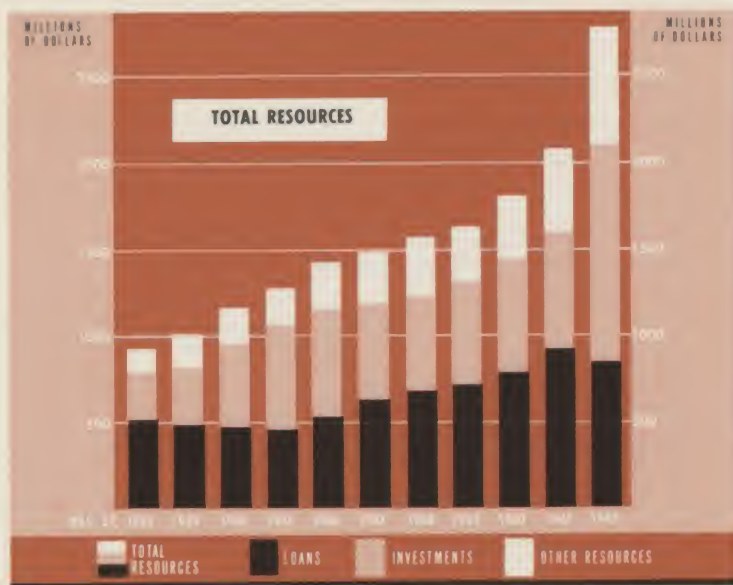
Charges against these earnings, totaling \$9,627,743, consisted of reserves set up and applied to absorption of losses or revaluation of assets, and provisions for depreciation and amortization, employees' profit-sharing bonus, and benefit fund.

From the remaining \$16,950,115, dividends aggregating \$10,528,582 were paid, \$928,582 on Preferred Stock at the rate of \$2 a share, and \$9,600,000 on Common Stock at the rate of \$2.40 a share.

After these payments and provisions, \$6,421,533 was added to Capital Funds from the year's earnings.

CHANGES IN CAPITAL FUNDS

During the year, the already substantial margin of actual value of bank premises and other real estate over book carrying values was



SUMMARY OF OPERATIONS—1942

INCOME FROM:

Loans	\$45,121,793	
Security investments	19,961,550	
Miscellaneous sources, including trust fees, service charges, and recoveries	11,653,537	
GROSS INCOME		\$76,736,880

EXPENSES:

Salaries and payments for personal services	\$22,099,921	
Interest on deposits	10,814,962	
Taxes: Local, State and Federal, in- cluding Social Security, and Federal Deposit Insurance assessments . . .	8,913,232	
Other operating costs	8,330,907	
TOTAL OPERATING EXPENSES		50,159,022
EARNINGS		\$26,577,858

CHARGES AGAINST EARNINGS:

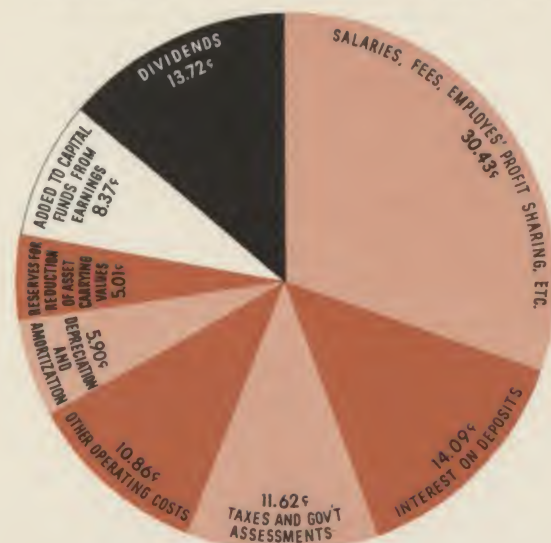
Depreciation of banking premises, fur- niture, fixtures and equipment, and amortization of bond premiums . . .	\$ 4,531,928	
Reserves set up and applied to absorp- tion of losses or revaluation of assets	3,847,969	
Clorinda Giannini Memorial Benefit Fund	50,000	
Employees' profit-sharing participation	1,197,846	
		9,627,743
		\$16,950,115

Dividends paid:

Preferred Stock—rate \$2 a share . . .	\$ 928,582	
Common Stock—rate \$2.40 a share	9,600,000	
Added to Capital Funds from earnings	6,421,533*	
		\$16,950,115

*For changes in Capital Funds, see Page 2.

DISTRIBUTION OF THE GROSS INCOME DOLLAR — 1942



further increased. In this connection \$2,437,617 of reserves was used to effect a reduction of the book value of those investments, in addition to normal depreciation.

Capital Funds were further reduced in 1942 by applying \$3,960,200 to the purchase and retirement of 79,204 shares of Preferred Stock. This reduced the Preferred capital account by \$1,584,080 (par value of retired shares) and Reserve for Increase of Common Capital was correspondingly increased.

Giving effect to the addition of \$6,421,533 from the year's earnings, and of aggregate withdrawals of \$6,397,817, total Capital Funds increased \$23,716 over the previous year-end figure, and on December 31, 1942, amounted to \$160,402,363.

PREFERRED STOCK RETIREMENT

On January 2, 1943, \$2,646,150 was transferred from Undivided Profits to the retirement fund and an additional 53,920 preferred shares were purchased and retired. Including this transaction, un-

divided profits totaling \$9,656,200 have been utilized to retire 193,124 shares, which represents nearly one-third of the 600,000 shares originally issued in June, 1940.



DEPOSIT GROWTH

TOTAL deposits of \$2,586,140,699 on December 31, 1942, composed of \$1,601,668,776 demand and \$984,471,923 savings and time, represented increases for the year of \$625,485,404 in demand and of \$52,271,374 in savings and time deposits.

Higher wages, less merchandise available for purchase, and a general tendency toward thrift, accounted principally for the increase in savings deposits; the increase in demand deposits resulted primarily from the inevitable inflationary consequences of financing such a stupendous war program as ours.

Potent factors affecting demand deposits are Treasury disbursements and investments by banks in Government securities. In the Twelfth Federal Reserve District, which includes California, Treasury disbursements are far in excess of receipts from sales of securities, taxes, and the like, and the rate of movement of funds to the District is rapidly increasing.

Excess of Treasury disbursements over receipts in the Twelfth District amounted to \$2,809,000,000 in 1942, compared with \$1,000,000,000 in 1941, \$420,000,000 in 1940, and \$244,000,000 in 1939.

Part of these disbursements return to other districts in payment for goods, but a large part remains as bank deposits in the Twelfth District.

In one respect the year's deposit gain conforms to a steady trend: growth of Bank of America as a commercial bank. It has long been the nation's largest savings institution. While much of the growth in demand deposits must be attributed to war activities, Bank of America's rate of gain considerably exceeded that shown for city banks in the Twelfth District in their weekly reports to the Federal Reserve System. (See Page 9.) This appears to reflect the advantages of statewide branch



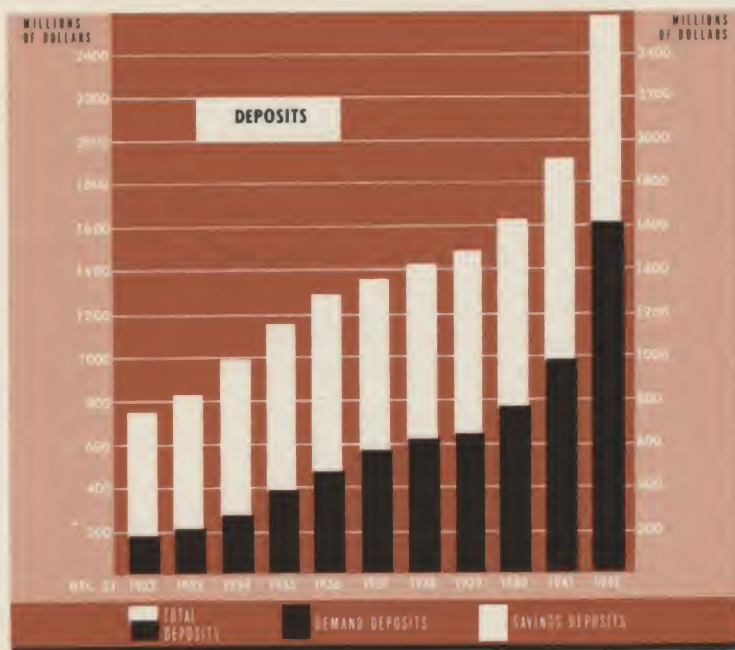
banking which serves all ramifications of California life and business—over-all instead of restricted coverage.

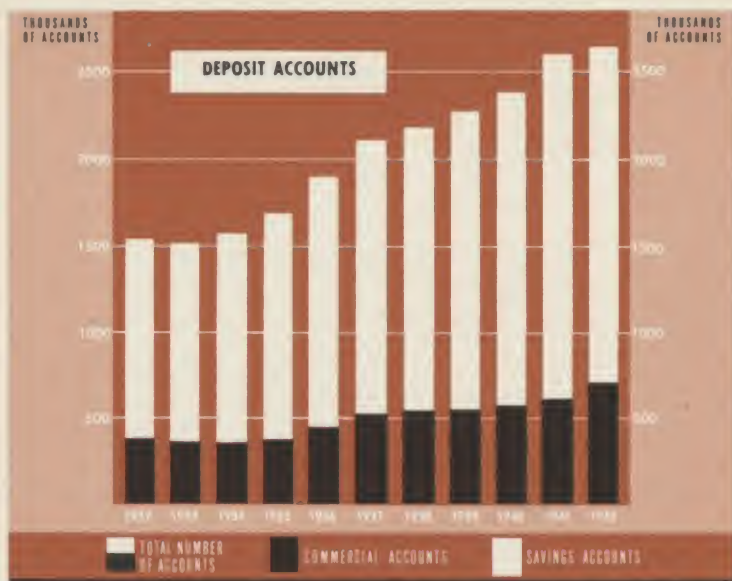
During 1942, the Bank was designated as General United States Depository in 23 new locations; 53 branches now act as such depositories.

Members of the staff actively assisted schools in setting up war savings programs. So as not to compete with the sale of stamps and bonds, the Bank voluntarily discontinued solicitation of school savings deposits for the duration of the war. However, the Bank continues to maintain school savings facilities, and toward the end of the year was carrying over 240,000 school savings accounts with aggregate deposits of about \$5,200,000.

December 1st disbursements to 278,000 members of the Christmas Club topped \$19,000,000. Many of these depositors save for taxes through the Christmas Club and redeposit for this purpose.

Total number of deposit accounts of all classes rose to 2,649,000.





From these facts it will be seen that Bank of America continues to serve the needs of all classes, the full range from the smallest savings depositor to the largest commercial customer.



INVESTMENTS

NOTEWORTHY features of the Bank's investment operations during the year were the increase in Government and total securities held, and the continuing high degree of liquidity in the Bank's position.

Increase in Government securities alone substantially exceeded the net increase in total deposits after deduction of cash reserves required to be maintained with the Federal Reserve Bank. The increase in demand deposits has been invested largely in Treasury bills and other short-term Government paper.

On December 31, 1942, issues maturing in less than one year comprised 35.6 per cent of the Government portfolio, compared with 12.5 per cent on December 31, 1941; maturities of five years and less increased from 29.1 to 50.6 per cent.

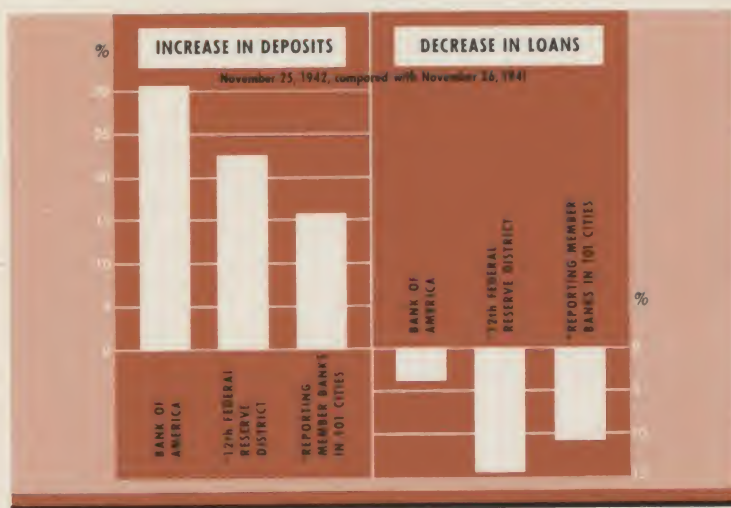
Under a recent ruling of the Federal Open Market Committee, Treasury bills held by banks may be sold to the Federal Reserve Bank and repurchased if desired, with dealings on a yield basis of .375 per cent. This makes Treasury bills practically the equivalent of cash and enables banks to keep available funds fully employed on an income-yield basis.

Bank of America again has availed itself of an opportunity to participate in financing the war to the fullest extent possible, while maintaining a liquid position.



LENDING ACTIVITIES

WAR INFLUENCES were felt in all fields of credit served by the Bank. Larger volume of business was done in some divisions, smaller in others. War-purpose loans rose sharply, consumer credit demand was in lesser volume, and increase in defense housing loans exceeded the decrease in other types of real estate loans.



*Reporting member banks, other than Bank of America, in 7 cities of 12th Federal Reserve District and 101 cities of the United States.

During the year, the Bank assisted both the largest and the smallest borrowers in financing expansion, conversion to war production, repair of irreplaceable equipment, debt consolidation and liquidation of debts on a budget plan, and other necessary adjustments.

Diversity of services and statewide operations enabled the Bank to participate in certain loan fields that are expanding, thus offsetting to the maximum extent a lower volume of business from contracting fields. Total loans outstanding December 31, 1942, amounted to \$840,469,960, compared with \$914,569,552 the year before.

In the year ended November 25, 1942 (latest date for comparative figures), Bank of America's deposits increased 30.32 per cent. In comparison, combined deposits of all other reporting member banks in seven large cities of the Twelfth Federal Reserve District increased 22.29 per cent, and in 101 large cities of the nation, 15.80 per cent. During this same one-year period, Bank of America's total loans outstanding declined only 3.88 per cent, while loans of all other reporting member banks in the seven cities of the Twelfth District declined 14.31 per cent, and of such banks in the 101 cities, 10.88 per cent.

Although contending with more rapid increase in deposits, the Bank's outstanding loans equalled 37.12 per cent of deposits at November 25, 1942, compared with a loan-deposit ratio of 20.03 per cent for all reporting member banks, excluding Bank of America, in 101 cities.

WAR-PURPOSE LOANS

Loans for war production purposes kept pace with the state's mounting output of war materials. In the quarter ended September 30th (date of most recent survey), the total of such loans made by the Bank, including renewals, was \$118,169,000, compared with \$40,488,000 in the last quarter of 1941, the volume nearly tripling.

Commitments unused at September 30th totaled \$82,844,000 as compared with \$54,729,000 at mid-year, indicating continuance of the upward trend in this field.



RESOURCES

Cash in our vaults and on deposit with Federal Reserve Bank		\$ 350,278,009.96
Cash on deposit with banks in New York, Chicago and other cities and cash items in process of collection . . .		254,763,374.78
TOTAL CASH		\$ 605,041,384.74
Securities of the United States Government and Federal Agencies		\$1,043,061,518.77
State, county and municipal bonds		172,982,016.46
Other bonds and securities		45,985,908.52
Stock in Federal Reserve Bank		3,720,000.00
TOTAL SECURITIES		\$1,265,749,443.75
We have loaned to our customers for use in their businesses, for war production contracts, for the storing of commodities, for intermediate capital uses, for building, buying or modernizing their homes, financing automobile or household equipment purchases, and for other legitimate needs		\$ 840,469,960.29
We have interest due us on bonds and loans (earned to the date of this statement), and accounts receivable		7,735,711.04
We hold guarantees and securities of customers and banks, for letters of credit, acceptances and endorsed bills		16,590,257.41
TOTAL DUE US FROM CUSTOMERS		\$ 864,795,928.74
Bank buildings, furniture, fixtures and safe deposit vaults. This figure represents the cost less depreciation reserve of \$18,944,792.51		\$ 30,956,355.77
Other real estate owned. This is real estate acquired in the settlement of debt carried at cost or appraised value, whichever is lower		\$ 3,974,282.61
Other resources including supplies inventory, automotive equipment, deferred charges, etc.		\$ 1,172,236.28
TOTAL RESOURCES		\$2,771,689,631.89

This statement includes the figures of
Member Federal Reserve System . . . Mem

America

AND
GS ASSOCIATION

n December 31, 1942

LIABILITIES

Demand deposits. Funds placed with the Bank by individuals, corporations, firms, banks, public officials and the United States Government (payable on demand) . \$1,601,668,776.37

Savings and time deposits. Funds placed with the Bank in savings accounts or for extended periods of time by individuals, corporations, firms, United States Government, State of California and political subdivisions thereof . 984,471,922.63

TOTAL DEPOSITS \$2,586,140,699.00

We have endorsed Bankers' Acceptances and issued Letters of Credit on behalf of customers, and have agreed to honor Customers' Drafts (not yet due), all of which are secured by the guarantees and collateral of customers and banks included in resources . \$ 16,812,501.73

We have set aside as a reserve for interest payable on time deposits and for taxes and other expenses . \$ 4,245,148.20

We have reserved for interest received in advance on loans . \$ 4,088,920.20
This amount will be taken into income as earned.

TOTAL LIABILITIES \$2,611,287,269.13

CAPITAL FUNDS

The difference between the total resources and the total liabilities represents the Bank's working capital, provided by the stockholders as a protection for depositors. It is carried on the books as follows:

Capital. Representing the investment of over 150,000 stockholders

Common (4,000,000 Shares.) \$ 50,000,000.00

Preferred (460,796 Shares.) Issued at \$50 (\$20 Capital \$30 Surplus), Annual Dividend \$2. Preferred to extent of and retireable at issue price and accrued dividends . 9,215,920.00

Surplus. Paid in by stockholders or accumulated from earnings in the operation of the Bank . 62,000,000.00

Undivided Profits. Profits accumulated and not withdrawn, but left with the Bank for use in conducting its business . 21,151,214.33

Reserve for War Contingencies, Etc. Additional profits accumulated from operations and set apart by the Board of Directors for unforeseen contingencies which may result from the war or post-war readjustments, and other contingencies . 12,074,463.57

Other Reserves. Set aside out of accumulated profits by the Board of Directors, available as a reserve, in addition to Surplus and Undivided Profits, against normal contingencies . 2,834,891.21

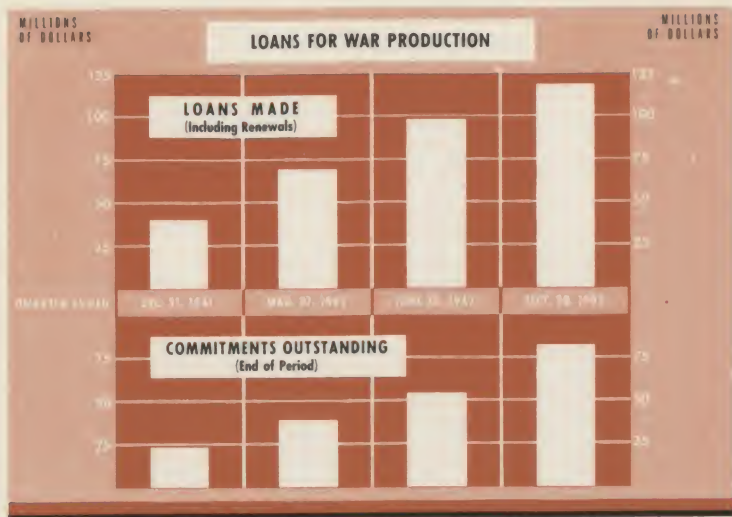
Reserve for Increase of Common Capital. Funds provided from earnings for the increase of Common Capital resulting from the retirement of Preferred Stock . 2,784,080.00

Retirement Fund. Funds set aside from profits to retire Preferred Stock by purchase or by call in accordance with the Articles of Association of the Bank . 341,803.65

TOTAL CAPITAL FUNDS \$ 160,402,362.76

LIABILITIES AND CAPITAL FUNDS \$2,771,689,631.89

the London, England, banking office
ber Federal Deposit Insurance Corporation



REGULATION V LOANS

"Regulation V" loans are a special type of war-purpose loans which originated in 1942 through an Executive Order of the President of the United States. Such loans, made to war contractors and sub-contractors, are guaranteed as to principal and interest, in whole or in part as arranged, by the War Department, the Navy, or the Maritime Commission. The first transaction by the Bank in this type of credit was on May 26th. From this date to June 30th, Regulation V loans and commitments totaled \$4,149,000; at year-end the total had increased to more than \$75,000,000.

REAL ESTATE LOANS

Total real estate loans outstanding December 31, 1942, were slightly higher than the year before. This gain, occurring in a year when new construction of non-defense homes was virtually suspended, was made possible by a substantial increase in FHA loans outstanding, most of which represented financing of defense housing projects under Title VI of the National Housing Act.

Title VI loans, confined to low-cost dwelling structures, and financed by projects, are insured, as are other types of FHA loans. The Bank

has financed projects involving from 100 to over 500 homes in such congested localities as San Diego, Long Beach, Los Angeles, Oakland, Richmond, Vallejo and Napa.

Outstanding Title VI loans, exceeding \$30,000,000 on December 31, 1942, represented more than 8,500 homes provided for defense workers.



FINANCING RECEIVABLES

In the year just closed, Bank of America advanced \$77,131,000 against accounts receivable. This was an increase of 38.4 per cent over the year before, and raised to \$203,494,000 the total of such credit extension since creation of an accounts receivable department in 1938.

With the war production program in high gear, many a small business in California had big business thrust upon it for immediate handling. For numerous such enterprises, increased working capital requirements have been met through the Bank's system of financing accounts receivable.

COMMODITY LOANS

In 1942 commodity loans also helped to increase production in many essential and critical lines, including foodstuffs, steel, chrome and other metals, machine parts, fabrics and plastics. Warehouse financing often furnishes for small businesses necessary credit not readily available to them by any other means.

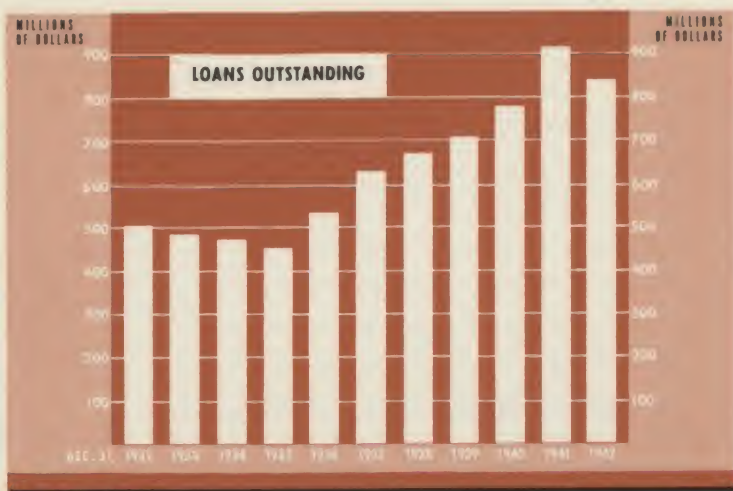
LIVESTOCK LOANS

In May, 1942, the Bank further broadened its credit services by establishing a livestock loan department, with the former Bankamerica Credit Corporation as its nucleus.

The field served by this new department is the largest agricultural industry in California, livestock and livestock products supplying 30 per cent of all agricultural income and ranking next to petroleum as a basic producer of income in the state.

TIMEPLAN FINANCING

As foreseen a year ago, in 1942 Timeplan experienced its first decrease in consumer credit volume since the department came into being



in 1935. Notwithstanding, Timeplan loans and contracts financed in 1942 amounted to \$144,300,000.

Causes for smaller volume are well known: limitation, and in some cases elimination, of the type of goods purchased through Timeplan financing, restrictions on home modernization, and Federal Reserve Board anti-inflation regulations.

Public utilities, department stores, musical instrument dealers and other large, financially strong concerns, some of which have in the past carried all or a portion of their own instalment accounts, are now using Bank of America service to reduce detail work. These new customers are finding the Bank's service so satisfactory that a larger volume of this class of business is likely to result.



WAR BOND SALES

WAR SAVINGS BONDS are sold throughout the country by banks, post offices, investment dealers, department stores, public utilities and other large corporations, and through other outlets.

In the first ten months of 1942 (latest comparison available), sales of war savings bonds through Bank of America branches amounted to

1.85 per cent of the nation's total and 27 per cent of total sales in California through all sources.

From May, 1941, the date of the original offering, to the end of December, 1942, the Bank's sales of war savings bonds to the public amounted to \$192,735,000.

There is double satisfaction in the fact that this means not only nearly \$193 Millions furnished the nation's war chest, but also more than \$242 Millions (maturity value) in future security for patriotic, thrifty Californians.

In addition to sales of war savings bonds during 1942, approximately \$187,000,000 of various issues of Government bonds, tax anticipation notes, etc., were purchased by the public through Bank of America. Thus, investment in Government issues through the Bank in 1942, in addition to investment for the Bank's own account, approximated \$347,218,000.



A considerable number of the Bank's employees are engaged exclusively in handling war bond transactions. The Bank's advertising has been used extensively to stimulate bond purchases by the public. No part of such expense is reimbursed to banks and other distributors of war bonds.

When it became necessary to sell war bonds to the public on an unprecedented scale, the Bank, with its numerous branches, constituted a statewide distributing organization, prepared for immediate action. Convenient locations of branches and the nature of their relations with the people and business of the state provide an ideal set-up for large-scale operations.



TRUST DEPARTMENT

ESSENTIALLY, the Trust Department engages in peacetime activities, but it, too, participated in victory banking in 1942. At the request of the Federal Reserve Bank of San Francisco, the Department accepted appointments as agent for alien interests. Also, more of our

own citizens, serving in the armed forces, opened custodian and trust accounts for the management and protection of their property.

The Bank was named in 2,354 wills covering property having an estimated total value of \$99,000,000. During the year 770 new trusts and estates were established, with combined assets in excess of \$26,000,000.



INTERNATIONAL BANKING

BANKING transactions incident to foreign trade were considerably curtailed by war conditions. Latin American and other friendly nations are eager buyers of our goods, but war conditions have caused much of this demand to go unsatisfied.

Other nations as well as our own are planning for more of the better things of life through democratic processes after the war. The most populous nations, most potentially rich but least developed in natural resources, lie across the Pacific. California ports will inevitably benefit by their post-war development. In consequence, a strong revival in foreign banking business is anticipated shortly following the close of hostilities.



Sales of travelers cheques increased about 16 per cent, setting a new record, and average outstandings were about 51 per cent higher than in 1941.



THE STAFF

ON MANY occasions over the years Bankamericans have been called upon to show their mettle, and they have always responded. Against a brilliant background of achievement, Nineteen Forty-Two stands out.

As staff members joined the colors, others closed the ranks, shouldered added responsibilities, and upheld the service standard while handling a record volume of essential banking business under difficult

conditions. Women now make up a larger percentage of the staff, including many in positions formerly filled exclusively by men, and to them much credit is due for the continued efficiency of the organization.

To absorb an unusual number of inexperienced recruits, educational work has been geared to faster tempo and training routine cut from months to weeks. Assimilation of new employes has been greatly facilitated by the assistance of those who have had years of experience in the Bankamerican way; and to experienced staff members who have stood by their posts the Bank attributes primarily its ability to carry on and render necessary service.

In the present organization, 5,602 officers and other employes have served the Bank for more than five years. Of these, 3,638 have been with the institution for over 10 years, 334 of them for more than 25 years.

The list of employe benefits was increased in 1942 by creation of the Clorinda Giannini Memorial Benefit Fund, a trust to provide extraordinary aid for those who may be without means when overtaken by misfortune.

During the year, 1,955 staff members were granted military leave of absence, and up to the present 2,568 Bankamericans have entered the armed services.

In various ways the business family ties with our absent members are being maintained. Employes on military leave are permitted to replace their bank group insurance with National Service Life Insurance and are reimbursed by the Bank for the replacement cost. Individual packages of Christmas cheer were sent to Bankamericans on military duty all over the world. News of their co-workers and of the Bank reaches them and their families through the staff newspaper.

To Bankamericans and members of our family of stockholders on the fighting fronts, and to all the rest of the armed forces, we at Bank of America renew our pledge of a year ago: to do our utmost on the victory banking front.



ADVISORY BOARDS



ADVISORY BOARDS have been an institution in the Bank since earliest development of our branch system. Through these local boards branches gain sound counsel in local matters. Their members have contributed much to the growth of the Bank. On behalf of the stockholders and management, I wish again to express our appreciation of the efforts of Advisory Boards in the unusual year just ended.



Once more it is a pleasure to assure our 150,000 stockholders that their continued patronage and keen interest in the affairs of their Bank have contributed heavily to another successful year.



CALIFORNIA INDUSTRY

CALIFORNIA's progress has been accentuated at times by revolutionary development: discovery of gold, development of agriculture, finding oil, perfection of the motion picture.

Added to the list, we now see California's manufacturing industry in the process of being established on a permanently higher level as a by-product of war.

In the 12 months ended with September, 1942, the value of war contracts placed in California was \$6,202,796,000. Cumulative total value of war contracts awarded in California, June, 1940, through September, 1942, was \$9,116,877,000. This was 8.68 per cent of the national total. For the period, value of California war contracts was \$1,320 per capita, 1940 Census, compared with \$797 for the United States.



The future of aviation must be left to the imagination, but it is a fact that the nation's aircraft manufacturing center is California.

Shipbuilding in California is now proceeding at an abnormally high rate. However, it will take many years after the war to replace sunken vessels. Over 3,800 ships have been reported sunk in the war to date.

Also, an entirely new concept of world trade relations may become established, increasing the international flow of goods beyond any known record, and requiring shipping facilities far in excess of former peacetime tonnages.

To provide present necessities, durable goods industries and precision manufacturing are being developed extensively in and adjacent to California. Mineral and other natural resources are at hand, huge power projects have been completed, and the state's army of trained technicians has been greatly expanded.

Various authorities estimate California's population increase since the 1940 Census at 600,000 to 750,000. As in each previous epoch, it is expected that many of these new residents will remain and participate in the further building of the state.

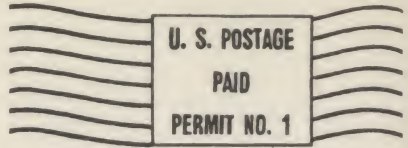
War is a destructive force, exposing us to grievous personal losses and innumerable sacrifices. Our resources of mind and material will be severely taxed and conceivably there may still be setbacks and times which test our fortitude. Unpredictable turns and obstacles litter the course we must follow. Moral and physical qualities may be called upon to withstand the most severe attritions which the stresses of all-out war impose. Yet we all have faith in our cause and reason for highest confidence in our capacities to win final victory.

In that day, California may expect to emerge from the war with permanent gains in population, home building, trade and business of every description, and particularly in manufacturing, strongly equipped to render a contribution to peace equal to its outstanding contribution to the struggle to win that peace.









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